

Message Text

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ACTION NEA-10

INFO OCT-01 ISO-00 TRSE-00 OMB-01 SAM-01 CIAE-00 COME-00

EB-07 INR-07 LAB-04 NSAE-00 SIL-01 DODE-00 PM-03 H-02

L-03 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06 /070 W

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R 031228Z JUL 75

FM AMEMBASSY TEL AVIV

TO SECSTATE WASHDC 7378

C O N F I D E N T I A L TEL AVIV 4250

E.O. 11652: GDS

TAGS : ELAB, EFIN, IS

SUBJECT : TAX REFORM BILL THREATENED

BEGIN UNCLASSIFIED

1. SERIOUS CONTROVERSY BETWEEN HISTADRUT AND GOVERNMENT
OVER ISRAEL'S MAJOR INCOME TAX REFORM PROPOSAL NOW
REACHING CRITICAL STAGE.

2. WHILE HISTRADRUT IN APRIL HAD ACCEPTED PROPOSALS OF
BEN SHAHAR COMMITTEE IN PRINCIPLE, IT HAD QUIETLY EXPRESSED
RESERVATION OVER CERTAIN RECOMMENDATIONS. MOST IMPORTANT
CRITICISM CONCERNED RECOMMENDATION THAT ALL CAR ALLOWANCES
BE TREATED AS TAXABLE INCOME, REGARDLESS OF WHETHER OR
NOT WORKER ACTUALLY USES CAR IN CONNECTION WITH HIS JOB
(CAR ALLOWANCE FOR MANY WAGE-EARNERS REPRESENTS SIGNIFICANT
PORTION OF TAKE-HOME PAY). BEN SHAHAR SUGGESTED THAT
INEQUITIES STEMMING FROM THIS RECOMMENDATION BE
HANDLED THROUGH LABOR-MANAGEMENT NEGOTIATIONS.

3. WITH TAX REFORM BILL NOW BEFORE KNESSET, HISTADRUT
DEMAND FOR CHANGES HAS SWUN INTO HIGH GEAR. IN RESPONSE
TO PRESSURE FROM OTHER GROUPS, KNESSET ALREADY HAS
CHANGED ONE PROPOSAL ON CAPITAL GAINS TAX, ELIMINATING
RETROACTIVE FEATURES OF BEN SHAHAR'S RECOMMENDATION.

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HISTADRUT NOW PUBLICLY DEMANDS THAT ONLY HALF OF CAR

ALLOWANCES BE MADE TAXABLE DURING FIRST YEAR, WITH ISSUE REEXAMINED AFTER ONE YEAR. OTHER CHANGES URGED BY HISTADRUT INVOLVE BEN SHAHAR PROPOSALS THAT PAYMENTS FOR PROFESSIONAL TRAINING AND BUS FARE ALLOWANCES FOR TRAVEL TO AND FROM WORK BE TAXED. AT SAME TIME, HISTADRUT IS URGING INCREASE IN INCOME TAX RATES FOR HIGH-INCOME EARNERS.

4. IF ITS PROPOSALS ARE NOT ACCEPTED, HISTADRUT HAS THREATENED TO REOPEN ALL NATIONAL WAGE CONTRACTS, WHICH EXPIRED JUNE 30, IN FACE OF STRONG GOVERNMENT INSISTANCE THAT WAGE CONTRACTS BE EXTENDED WITHOUT CHANGE UNTIL DECEMBER 31. END UNCLASSIFIED

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5. COMMENT: WITH TAX REFORM BILL SLATED TO BE PASSED BY KNESSET NEXT WEEK, GOI NOW FACED WITH CHOICE OF WATERING DOWN TAX REFORM LAW--WITH LIKELIHOOD OF DEMANDS FOR ADDITIONAL CHANGES FROM OTHER SPECIAL INTEREST GROUPS, OR TO FACE PROSPECTS OF NEW ROUND OF COLLECTIVE BARGAINING AT TIME WHEN WAGE RESTRAINT IS CRITICAL ASPECT OF ITS ECONOMIC POLICY. IN EITHER CASE, GOVERNMENT EFFORTS TO REDUCE CONSUMPTION WILL SUFFER SETBACK. END CONFIDENTIAL
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